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Understanding Montana School Finance and School District Budgets

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Special thanks to John R. Fero for allowing the use of parts of the format, questions and answers from his publication of "Understanding Montana School Finance and Montana School Budgets" in 1996.

INTRODUCTION

The purpose of this booklet is to provide Montana citizens, legislators, parents and new school board trustees with a basic understanding of Montana school finance and school district budgets. It is written in a question/answer format and addresses some of the major aspects of school finance and the budgeting process.

The concepts outlined in this booklet are subject to change with every legislative session, and as new laws affecting school finance are enacted.

Many of the topics covered in this booklet can be found at the Montana Office of Public Instruction website (www.opi.state.mt.us). In addition, more detailed information about your particular school district may be obtained by contacting the school district superintendent and/or clerk, or the county superintendent of schools, county treasurer, or county commissioners.

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Montana Constitution

Article X, Section 1 of the Montana Constitution of 1972 states, in part:

"It is the goal of the people to establish a system of education which will develop the full educational potential of each person. Equality of educational opportunity is guaranteed to each person of the state.

The state recognizes the distinct and unique cultural heritage of the American Indians and is committed in its educational goals to the preservation of their cultural integrity.

The legislature shall provide a basic system of free quality elementary and secondary schools . . . (and) shall fund and distribute in an equitable manner to the school districts that state share of cost of the basic elementary and secondary school system."

Statewide Overview

Q: How many public school districts does Montana have?

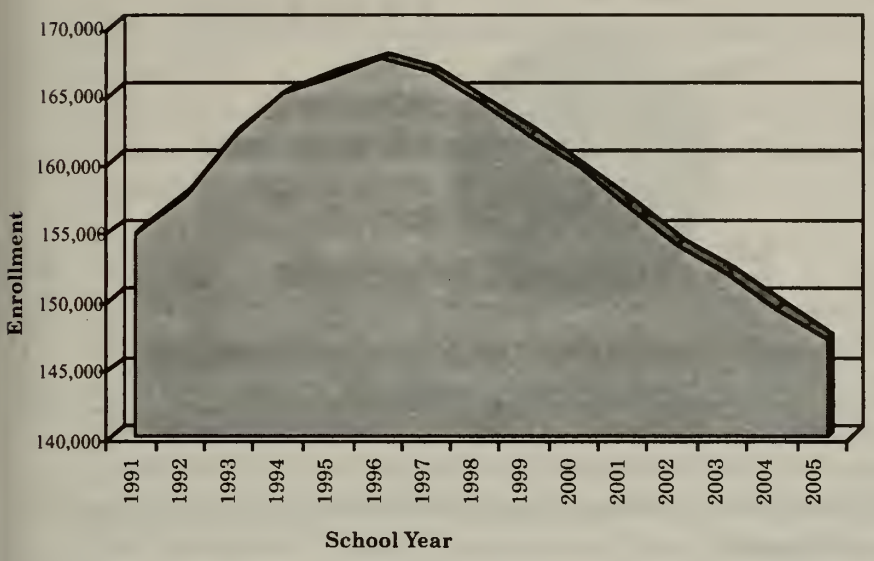
A: In FY2004-05, Montana had the following districts:

Elementary	279
High School	110
K-12	55
	444

Q: How many students are enrolled in Montana's public schools?

A: In FY2004-05, there are 146,519 students enrolled in K-12 public education.

K-12 Student Enrollment
Montana School Years 1991-2005



Q: How much of Montana's school funding comes from Federal, state, county, and local sources?

A: Schools receive about: 45% of their funding from the state, 25% local property taxes, 10% county sources, 9% Non-tax local sources, and 11% Federal sources. [1998-99 Montana Statewide Education Profile, page 50]

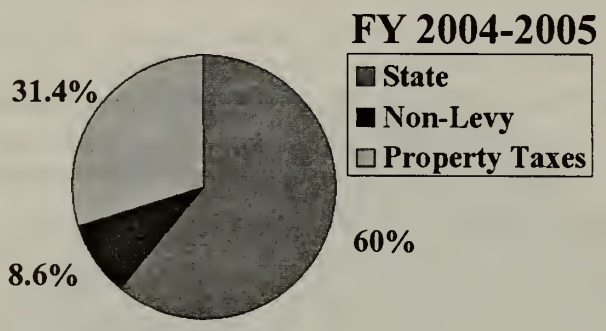
Q: What is the total budget for Montana's school districts? How much does the state fund?

A: Total school general fund budgets for 2004-05 were about $767million. The state funded about $460 million (60%).

Q: How much of school general funds are supported by local property taxes?

A: In 2004-05, local property taxes supported $241 million (31.4%) of the total school general fund budgets statewide.

School General Fund Revenues



Q: What is the average school general fund budget per pupil in Montana?

A: In 2004-05, districts budgeted an average of $5,265 per pupil. Of that amount, the state support was $3,161 per pupil.

Q: What portion of money from the lottery goes to Montana schools? Are lottery funds still earmarked for education?

A: Lottery money is no longer earmarked for education, but it is one funding source used for education. In 1986, the Montana State Lottery Act passed by 69% of the popular vote. Under that Act, the lottery profits were used to fund the Teachers' Retirement System in order to hold the line on, or reduce, property taxes. In 1989, the Legislature allocated lottery profits to state equalization aid for schools. In 1991, the Legislature allocated lottery profits to the state's general fund. In the state general fund, the lottery profits are combined with many other state resources used to fund a variety of state programs. Other more significant revenues that fund the state general fund include state income taxes, property taxes, and coal trust interest earnings.

Based on FY 2003-04, approximately 0.6% of the state general fund money came from lottery profits. In FY 2003-04, the total general fund revenue was about $1.24 billion, and lottery profits brought in about $8.1 million, or 0.6% (6 tenths of one percent). About $558 million of the state general fund was used for school funding purposes annually.

The Teachers' Retirement system benefits school teachers in Montana, who pay 7.15% of their salaries into the system. School district employers contribute 7.47% and the state pays .11%.

Q: What are school trust lands?

A: Under the Enabling Act that granted Montana its statehood in 1889, the federal government ceded 5.2 million acres of land across Montana for common school support. The state Board of Land Commissioners oversees the management of school trust land. The Land Board is responsible for deciding how best to generate revenue from school trust lands for the trust. The Trust Land Management Division of the Department of Natural Resources and Conservation carries out the management decisions of the Land Board.

Income and interest earnings from school trust lands are set side in a "Guarantee Account" and statutorily appropriated to fund K-12 BASE aid. The Legislature builds these school trust funds into its revenue estimates for schools. If income and interest earnings from the school trust lands exceed the revenue estimates, the state general fund obligation for schools is reduced. In 2002, the school trust revenues generated nearly 10% of school funding in Montana, or more that $45 million, for our students and classrooms.

More information about school trust lands can be found at: http://www.opi.state.mt.us/superintendent/landboard/htm and http://www.dnrc.state.mt.us/trust/tlmdhome.htm.

Q: How much is raised by the county equalization (55) and statewide equalization (40) mills?

A: In FY04, the county equalization mills raised $97.2 million and the statewide equalization mills raised $61.3 million.

Organization of a School District

Each school district is governed by a board of trustees who are ultimately responsible for every action of the school district. The trustees are elected officials and, as a board, must carry out their duties according to the Montana Constitution, the laws of Montana, and the Administrative Rules of Montana of the Board of Public Education (BPE) and other pertinent state agencies, such as the Office of Public Instruction (OPI). The trustees typically hire a district superintendent and school clerk to assist with the general supervision and fiscal responsibilities of the school district. The trustees also work with the county superintendent of schools, county commissioners and county treasurer.

Q: Why does the board of trustees control the school district?

A: Article X, Section 8 of the Montana Constitution establishes local control of a school district: "The supervision and control of schools in each school district shall be vested in a board of trustees to be elected as provided by law."

Q: When are school district trustees elected?

A: Trustee elections take place on the regular school election day, which is the first Tuesday after the first Monday of May.

Q: How many members are on the board of trustees?

A: The number of trustees on the board depends on the size of the school district. Typically, small school districts have three trustees; large school districts have seven trustees. See MCA 20-3-341 and 20-3-351 for specific information.

Q: How long do the trustees serve on the board?

A: Each trustee is elected for a three-year term.

Q: Are trustees paid for their positions?

A: No, the trustees of a school district do not receive compensation for their services as trustees.

Q: What are the powers and duties of the trustees of each district?

A: The trustees are ultimately responsible for every aspect of the school district. The trustees make policy, adopt and administer the annual budget, approve expenditures, make required reports to various agencies, establish elections, and enforce the requirements for government of the school district according to state law and the Administrative Rules of the Board of Public Education and the Office of Public Instruction. A detailed list of these duties is found in MCA 20-3-324.

Q: Does an individual board member have any authority in the operation of a school district?

A: No board member, including the chairperson, has authority as an individual in the operation of a school or school district. The only authority an individual has is as a member of the board when acting as part of a collective unit in a regular or properly called special meeting.

Q: What is the role of the district superintendent?

A: The superintendent is responsible for the general supervision of all the schools of the district and for implementing and administering the policies of the board of trustees. In very small schools that do not hire a district superintendent, the county superintendent of schools fulfills this role.

Q: What is the role of the district clerk?

A: By law, the trustees must employ and appoint a clerk of the district. The district clerk is the custodian of all documents, records and reports of the trustees. Most clerks are also employed to perform accounting and financial reporting functions for the school district.

Q: What is the role of the county superintendent of schools?

A: The county superintendent provides general supervision of the schools located in the county as outlined in MCA 20-3-205 and 20-3-206. Other duties found in state law include chairing of the county transporta-

tion committee, acting as attendance officer for a third-class school district if one is not appointed, being clerk of a joint board of trustees, and assisting trustees with school supervision if a district superintendent or principal is not employed there.

Fund Accounting

School district accounting systems are organized and established on a fund basis. A fund is a self-balancing set of accounts used to track the fiscal activity for a specific purpose or activity. Each fund must be accounted for separately so that its resources, obligations, revenue and expenditures are kept apart from other funds. Legal reference to fund accounting for schools can be found at MCA 20-9-201.

Q: What types of funds are used by school districts?

A: School district funds are included within the following categories:

Governmental Funds—Most school district functions are typically financed through four types of governmental funds: General, Special Revenue, Capital Projects and Debt Service. These are further classified as either budgeted or non-budgeted funds.

Proprietary Funds—Two types of proprietary funds, Enterprise and Internal Service, are used to account for a school district's ongoing organizations and business-type activities that are similar to those found in the private sector. Proprietary funds are non-budgeted funds.

Fiduciary Funds—Two types of fiduciary funds, Trust and Agency, are used to account for assets held by a school district in a trustee capacity or as an agent for another entity or fund. Fiduciary funds are non-budgeted funds.

Q: What are budgeted funds?

A: A "budgeted fund" means any fund for which a budget must be officially adopted by the board of trustees in order to expend money from

the fund (MCA 20-9-201(a)). Currently, the budgeted funds are:

General Fund	Building Reserve Fund
Transportation Fund	Adult Education Fund
Bus Depreciation Reserve Fund	Non-operating Fund
Tuition Fund	Technology Fund
Retirement Fund	Flexibility Fund
Debt Service Fund	

Q: What are non-budgeted funds?

A: A "non-budgeted" fund is any fund for which an official budget is not required to be adopted in order to expend money on deposit in the fund (MCA 20-9-201(b)). Expenditures from these funds are limited to the amount of cash balance in the fund. Some examples are:

School Food Services Fund	Impact Aid Fund
Miscellaneous Programs Fund	Enterprise Fund
Building Fund	Agency Fund
Lease or Rental Agreement Fund	Extracurricular Fund
Traffic Education Fund	Endowment Fund

Q: What are district accounting codes?

A: By law, each district must use the accounting codes designated by the Office of Public Instruction (OPI). This ensures continuity and uniformity across the state. OPI uses accounting codes suggested by the U.S. Department of Education.

Q: What are the different components of an expenditure accounting code?

A: District clerks pay bills using expenditure codes that identify the payment. For example, an expenditure code might look like this:

101-100-1000-680-123

An expenditure code is made up of five different parts. They are:

Fund code	XXX	(General Fund, Transportation Fund, etc.)
Program code	XXX	(regular programs, special education programs, etc.)

Function code	XXXX	(instruction, student support services, etc.)
Object code	XXX	(salaries, supplies, utilities, etc.)
Project Reporter code	XXX	(code for district's separate accounting of projects)

A detailed description and list of codes is found in the School Accounting Manual at http://www.opi.state.mt.us/schoolfinance/acct.html.

Q: Are school districts audited?

A: Yes. State laws require that districts with $200,000 revenue or more each year must have a basic audit. Federal law requires that if the district spends more than $500,000 of Federal money in a year, the district must have a more comprehensive audit that meets OMB A-133 Federal audit guidelines. Small districts with less than $200,000 of revenue, and $500,000 or less in Federal financial assistance expenditures, must have a financial review at least every 4 years.

Funding and the Budget Process

Most discussion about Montana school budgets and the budget process concentrates on the general fund. The general fund budget is used to finance "instructional, administrative, facility maintenance, and other operational costs of a district not financed by other funds established for special purposes . . ." (MCA 20-9-307). In an effort to equalize school funding in Montana, state law requires schools to adopt general fund budgets within an "equalized" range between the "BASE" and "Maximum." A PowerPoint presentation, "Basics of School Funding: BASE, Maximum, and Budget Limits for the General Fund FY2002-03," describes the calculations. It is available at http://www.opi.state.mt.us/schoolfinance/forms.html.

Other funds are established for special purposes, such as pupil transportation, tuition and debt service. A budget must be adopted for each of these funds in the manner provided for in state law.

Q: What is the history of the current school funding system?

A: In 1985, a coalition of 64 school districts filed a lawsuit in Helena District Court claiming that the funding of the education system in Montana, guaranteed under the Montana Constitution, was unconstitutional. On January 13, 1988, the "Loble Decision" was handed down. This decision, which was challenged by the state of Montana and subsequently upheld by the Montana Supreme Court, confirmed that the State of Montana:

> **". . . has failed to provide a system of quality public education granting to each student the equality of education opportunity guaranteed under Article X Section I of Montana's Constitution."**

In June of 1989, a special session was called to address the problem. During that session, HB 28 was passed in an attempt to solve the equity problem. HB 28 increased funding and instituted a Guaranteed Tax Base System (a mechanism designed to assist low wealth districts by subsidizing their tax base through state assistance). However, the under-funded coalition did not feel that this solved the equity problem and the funding disparity issue ended up back in District Court. The result was two additional equity lawsuits filed in 1991. Subsequent legislative action passed by HB 667 established the current method of school funding for all public school districts in the state. It established a formula that created maximum and minimum general fund budget levels for all school districts. Each school district was required to be within that range on or before 1998. SB 460 (1999 session) and SB 390 (2001 session) expanded the capacity of districts to adopt budgets that exceed the "Maximum" level.

In April 2004, the Sherlock decision in *Columbia Falls v. Montana* found the state share of school district spending inadequate, and found that Montana's funding formula is not reasonably related to the costs of providing a basic system of free quality public elementary and secondary schools. The case was appealed to the Montana Supreme Court, and in November 2004, it issued a preliminary affirmation of the Sherlock opinion. As a result, the Legislature must:

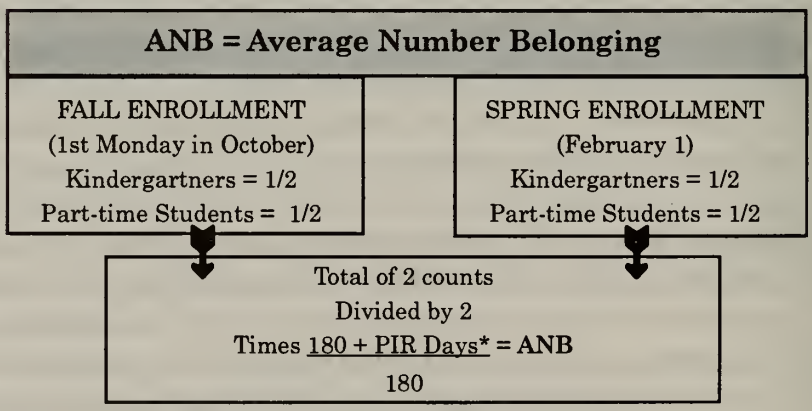
- Define the educationally relevant elements of a basic system of free quality public elementary and secondary schools;
- Determine the costs of delivering the resources required by that system for both operating and capital expenses;
- Devise a funding formula in law that will determine the state's share of school districts' resources; and
- Revise or augment state and district revenues required to pay for the system.

Q: How are the minimum and maximum general fund budget levels calculated?

A: The budget levels are calculated based on state entitlements that are driven by enrollment. The basic and per-ANB entitlements, along with the district's special education funding, define the BASE (minimum) and Maximum general fund budget limits.

Q: What is ANB?

A: In October and February of each school year, school districts report the number of students enrolled in their schools to the Office of Public Instruction (OPI). From these counts, "Average Number Belonging" (ANB) is calculated. ANB is then used to calculate the per-student entitlement and special education funding that, together with the basic entitlement, make up the BASE and maximum general fund budget levels for the following school year.



* PIR Days are "pupil instruction related" days for teacher inservice training and recordkeeping.

Q: What is the basic entitlement?

A: The basic entitlement is the minimum funding each school district will receive if in operation. In 2004-05, elementary districts receive $19,859 and high school districts receive $220,646. The basic entitlement rates are determined by the Legislature. Elementary schools having both a K-6 and an accredited 7th-8th grade program receive a prorated basic entitlement in which the basic entitlement for 7th and 8th grade ANB is based on the high school amount.

Q: What is the per-ANB entitlement?

A: Per-ANB entitlement (also known as per-student entitlement) varies based on the total number of ANB in the school district. The per-ANB entitlement rates are determined by the Legislature. Rates shown below are effective for 2004-05.

Elementary districts have a per-ANB entitlement of $4,031. This rate is decreased by $.20 per ANB for each additional elementary ANB up to 1,000 ANB. The per-ANB entitlement is $3,831.20 for each ANB over 1,000.

High school districts have a per-ANB entitlement of $5,371. This rate is decreased by $.50 per ANB for each additional high school ANB up to 800 ANB. The per-ANB entitlement is $4,971.50 for each ANB over 800.

Elementary districts, or the elementary program of a K-12 district, with an accredited 7th-8th grade program, receive a prorated amount of the elementary and high school per-ANB entitlement rates.

Q: How does the state fund special education?

A: OPI distributes state funding for special education in three categories:

1) Instructional Block Grant (IBG) and Related Services Block Grant (RSBG)—If a school district is eligible, these block grants are based on the ANB of the district. The money is spent on

allowable special education costs as defined in MCA 20-7-431. The district must spend $1 of local money for every $3 received from each block grant. If a school district is a member of a special education cooperative, the state pays the district's RSBG directly to the cooperative.

2) Reimbursement (40%) for Disproportionate Costs—Districts with unusually high special education costs may be eligible for additional special education reimbursements.

3) Additional administrative/travel funding for special education cooperatives.

Q: What is a special education cooperative?

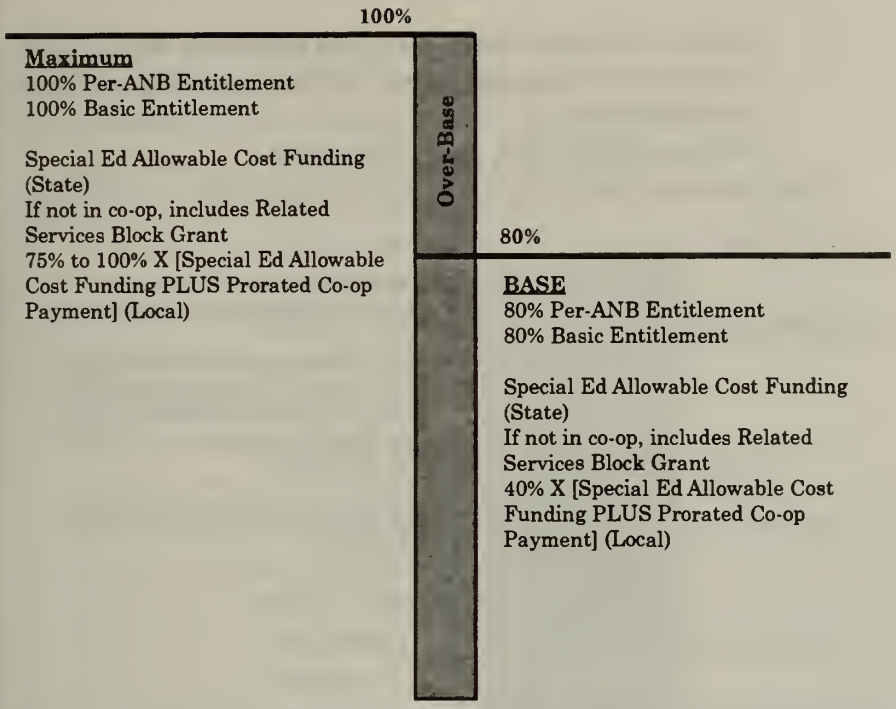
A: Special education costs often involve the services of specialists, such as speech or physical therapists and psychologists. Large school districts are often able to pay for these special services through their own programs. However, smaller districts may not have adequate resources to run a special education program. The result is that small- and mid-sized school districts usually pool their resources by forming a cooperative to maximize their special education services.

Q: What is the BASE budget?

A: The BASE budget is the minimum budget that a district must adopt for its general fund. It is equal to 80% of the basic entitlement, 80% of the district's per-ANB entitlement, 140% of the district's special education allowable costs, and 40% of the district's prorated special education cooperative costs.

Q: What is the Maximum budget?

A: The Maximum general fund budget is the sum of 100% of the district's basic entitlement, 100% of the district's per-ANB entitlement, between 175% and 200% of its special education allowable cost payments and between 75% and 100% of the RSBG received directly by the cooperative.



Q: What if a district's current budget is between the BASE and Maximum levels?

A: The district's budget is "equalized." This is what the court intended in its decision on equitable funding. A school district may increase its budget, with voter approval, in addition to increases generated by ANB, provided that the budget does not go over the Maximum level. In no case can any district budget below the minimum (BASE) level.

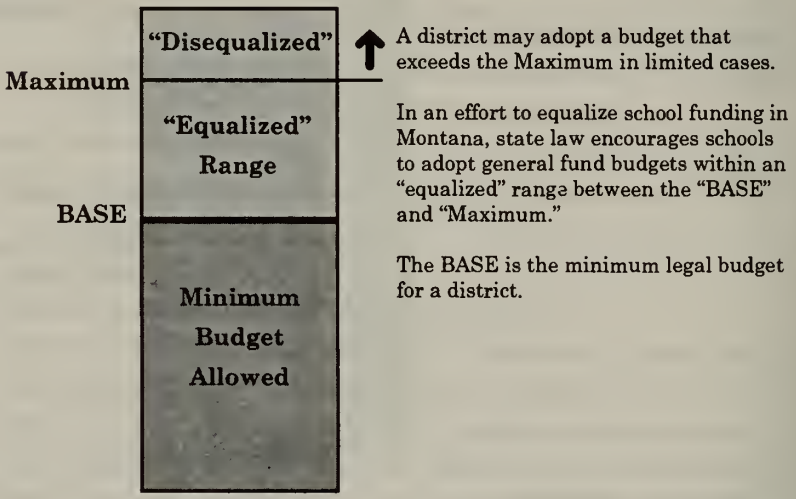
Q: What is a "disequalized" district?

A: A district is disequalized if its budget is over the Maximum. There are (3) categories of districts whose budgets can exceed the Maximum:

1) Districts with budgets that exceeded Maximum when HB667 established the current funding system in 1994. These districts cannot raise the budget over its current level;
2) Districts with enrollment decreases of up to 30%, causing the prior year budget to exceed the Maximum. These districts cannot raise the budget over current levels and must reduce the budget to Maximum within 5 years; and

3) Districts with enrollment decreases of 30% or more, causing the prior year budget to exceed the Maximum. These districts must reduce the over-Maximum portion of the budget each year for 5 years (20%, 25%, 33.3%, 50%, 100%).

Districts must obtain voter approval to adopt a budget over the Maximum.



Q: How does a district fund its general fund budget?

A: A district may fund its general fund budget from the following sources:

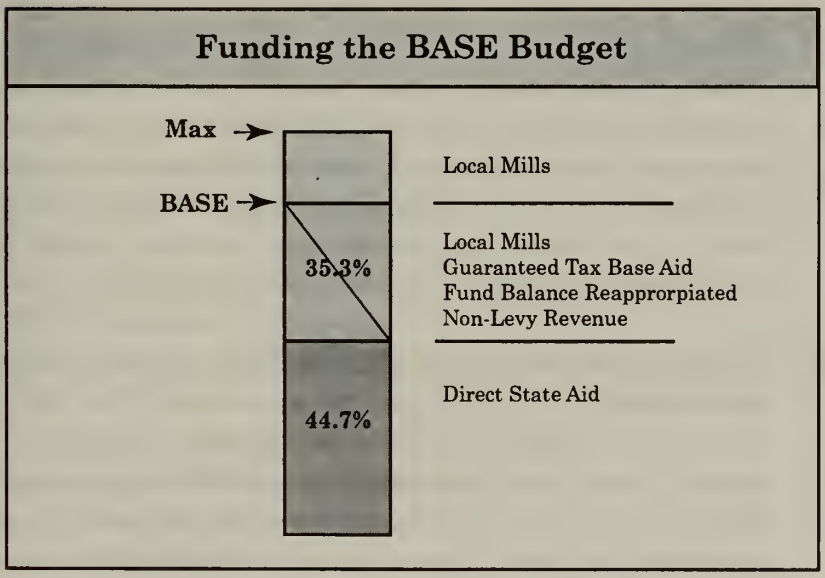
1. Direct State Aid equal to 44.7% of the district's basic and per-ANB entitlements.
2. Special Education Allowable Cost payments from the state that are paid directly to the district.
3. Non-levy revenue and fund balance reappropriated.
4. Non-voted local levies subsidized with Guaranteed Tax Base (GTB) aid to fund 35.3% of its basic and per-ANB entitlement and 40% of its special education allowable cost payment, including RSBG paid directly to cooperatives.
5. Voted and non-voted local levies with no GTB aid for that portion of the general fund budget that exceeds the BASE budget.

Q: How is the BASE budget funded?

A: The BASE budget is funded as follows:

1. Special Education Allowable Cost payment:
   Instructional Services Grant
   + Related Services Block Grant (if the district is not in a cooperative)
   + Reimbursement for disproportionate costs (explained above)
2. Direct State Aid
   44.7% of the district's basic entitlement
   + 44.7% of the district's per-ANB entitlement
3. BASE Mill Levy (includes GTB aid for qualifying districts)
   35.3% of the basic entitlement
   + 35.3% of the per-ANB entitlement
   + 40% of the state special education allowable cost payment

   (If non-levy revenue and reappropriated fund balance are available to fund the budget, the district lowers the BASE Mill Levy.)



Q: How is the BASE Mill Levy calculated?

A: The BASE Mill Levy is a local permissive (non-voted) tax levy. It is calculated by taking the BASE budget and subtracting all non-tax revenue sources that will be available to the district, including state funding, non-levy revenues such as oil and gas production revenues, and fund balance that can be "reappropriated" to fund the BASE budget next year. The remainder of the BASE must be funded with the BASE Mill Levy. The state subsidizes the BASE Mill Levy through GTB aid for districts that qualify.

Q: What is GTB aid and how does a school district qualify to receive it?

A: GTB means Guaranteed Tax Base. GTB aid is a state subsidy for BASE mills. It is used to equalize property-generated wealth across the state. This is the state revenue source that helps school districts reach the minimum (BASE) funding level. If a district's taxable value compared to the locally funded part of the BASE budget is below the comparable statewide ratio, the district will receive GTB aid to assist in funding up to the BASE budget level.

Q: Does Montana have a true Guaranteed Tax Base system?

A: Although we use the term GTB and refer to our current system of funding as a guaranteed tax base system, we do not actually have a true GTB system. Under a true GTB system, the tax base level is guaranteed and each levied mill supplies the same amount per student in any given district. Montana's program is actually a guaranteed tax yield system that provides state assistance in order to obtain at least a minimum amount of funding per mill for each student.

Q: How is the statewide GTB ratio figured for the elementary or high school?

A: The statewide taxable valuation is multiplied by 175%. This is then divided by the locally funded portion of BASE budgets, which includes 35.3% of the basic and per-ANB entitlements and 40% of the total special education allowable costs payments for all schools statewide.

$$\text{State GTB Ratio} = \frac{\text{Statewide Taxable Valuation x 175\%}}{\text{35.3\% of Basic Entitlement + 35.3\% of per-ANB entitlement + 40\% Special Education}}$$

Q: How is the local district GTB ratio figured?

A: According to statute, GTB ratios for the upcoming school year are calculated using the district's prior year taxable value, entitlements, and special education funding.

Q: What is Fund Balance Reappropriated?

A: At the end of the fiscal year (June 30), most districts still have cash on hand. After considering any unpaid obligations, the remainder is referred to as Fund Balance. School districts are allowed to set aside, or reserve, some or all of their fund balance in order to continue operation of the school district until funding is received from the state and property taxes. Fund Balance Reappropriated is the difference between the end-of-year fund balance and the amount reserved for operations. It must be used to fund the next year's budget.

Q: How much fund balance is a district allowed to reserve for operations?

A: By law a district cannot carry over more than $10,000 or 10% of the upcoming school year budget of the general fund (whichever is greater). Reserve limits have also been established for some of the other budgeted funds (Transportation Fund 20%, Retirement Fund 35%).

Q: What is non-levy revenue?

A: School districts receive revenues from other sources in addition to those levied on property. Some examples are:

- Interest earnings
- Rental of buildings and equipment
- Summer school revenues
- School Block Grant
- Coal gross proceeds tax

Property tax reimbursements
Montana oil and gas tax
Tuition

Q: Are school districts required to budget non-levy revenue sources?

A: The law says that districts must budget the same amount of non-levy revenue as actually received in the previous year. Exceptions require that coal gross proceeds tax, property tax reimbursements and Montana oil and gas tax must instead be estimated using information provided by the state.

Q: What is the Over-BASE budget?

A: If a district adopts a budget over the BASE (minimum) budget, that amount of budget is called the Over-BASE budget. The Over-BASE budget of an equalized district would be, at most, the amount of budget between the BASE and Maximum. That difference would be equal to 20% of the basic entitlement, 20% of the per-ANB entitlement and between 35% and 60% of the state special education funding.

Q: How is the Over-BASE budget funded?

A: The Over-BASE budget, including any amount of budget that exceeds the Maximum, is funded using a local Over-BASE tax levy. The state does not help finance this mill levy. Some districts receive tuition and other non-levy revenues that help fund this part of the budget.

Q: What happens if a district's budget is over the Maximum level?

A: The district's budget is "disequalized." Only certain cases allow a district to adopt a budget over the Maximum, and voter approval is required.

Q: What happens if enrollment decreases from the prior year?

A: Since the budget formula is based on enrollment figures, the BASE and Maximum budget levels will decrease for the upcoming year.

Declining Enrollment Greatly Impacts School's Budget

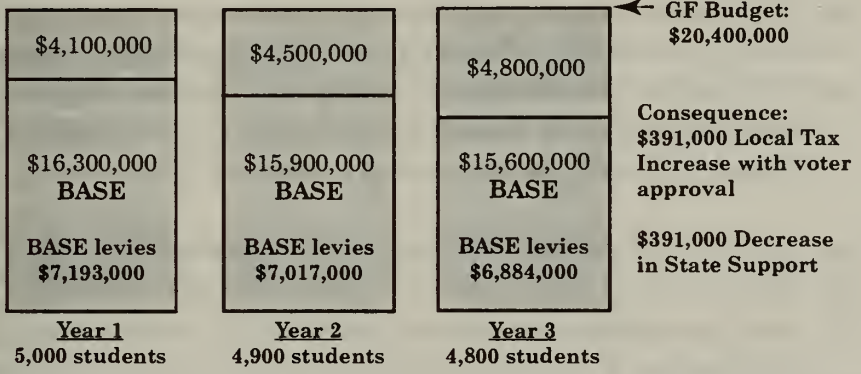
Example:

School District with 5,000 students

Enrollment drops by 100 students/year for 2 years

District general fund budget is $20,400,000 for all 3 years

No growth in budget, but property taxes increase significantly



Q: Does a district have to lower its budget if enrollment drops?

A: It depends on the prior year's adopted budget compared to that year's calculated BASE and Maximum levels and the percentage decrease in enrollment.

Prior Year Budget Status	Ensuing Year Budget Conditions
Equalized	Can adopt budget up to the Maximum. Over-BASE levy will increase. Voter approval required for increase in Over-BASE levy.
Disequalized Enrollment decreased by less than 30%	Prior year budget can be adopted. Voter approval required for amount over Maximum. Budget must be lowered to Maximum within 5 years.

Enrollment decreased by 30% or more	Yearly budget cuts required to phase budget down to Maximum within 5 years. Voter approval required for amount over Maximum.
Disequalized since 1993 (HB667)	Budget can be adopted above Maximum. Cannot adopt more than the prior year's budget. Amount above Maximum must not exceed the prior year.

Q: How does a district get the required voter approval for an Over-BASE tax increase or an Over-Maximum budget amount?

A: The trustees adopt a resolution calling for an election. Budget elections are held on the regular school election day, which is the first Tuesday following the first Monday in May.

Q: How do voters know how much the voted tax increase will be?

A: State law requires that certain information be contained in the ballot language. For equalized districts, the ballot language must include the total amount of the tax increase, the approximate number of mills and an estimate of increase in the taxes on homes with market values of $100,000 and $200,000. For disequalized districts, the required ballot language includes the amount that exceeds the maximum and the approximate number of mills.

Q: What happens if a budget election fails?

A: If voters do not approve the budget election, the school district may adopt a budget that is no greater than its "highest budget without a vote." For an equalized district, the Over-BASE levy can be no more than it was in the prior year. For a disequalized district, the adopted budget cannot exceed the Maximum.

Q: How does the board of trustees set the budget of the school district?

A: Generally, the superintendent makes recommendations to the board about the budget. However, the trustees set the official budget for the operation of a district. The adoption of a budget is done at a meeting that is open to the public. Any taxpayer in the district may be heard with regard to the budget or to any item or amount proposed in the budget.

Q: Do the trustees call for a mill levy election prior to the adoption of a budget or after it is adopted?

A: Generally, the trustees have some preliminary budget figures for use in considering a resolution to call for a levy election. Elections must be held in May. The trustees can adopt the final budget no later than August 15, but must have obtained voter approval before taking actions that require a vote.

Q: When is the final budget prepared?

A: The final budget for any district is approved on or before August 15. Until that time, changes may be made to the budget.

Q: What is the county commissioners' role in the school district budget process?

A: Although the trustees conduct the budget process in a school district, the county commissioners actually levy the required mills for the final budget. Although they cannot alter the budget, they can send it back to the trustees if there is insufficient revenue to fund the budget. By law, commissioners set the mill levies on the fourth Monday in August.

Q: Does a district have to spend all the money budgeted in a school year?

A: No law forces a district to spend what is budgeted and raised through the various revenue sources. However, the amount carried over from one fiscal year to another (the fund balance reappropriated) must be applied to the local non-voted revenue area of the state funding formula. This could impact local taxation the following budgeted year.

Q: What is the budget process for the other budgeted funds?

A: The process for the other budgeted funds is similar to the general fund. Since these funds are established for specific purposes, the types of expenditures and revenue sources are varied. Tax levies in the Transportation, Bus Depreciation, Tuition, Debt Service, and Adult Education are non-voted (permissive). Voter approval is required for tax levies in the Building Reserve, Technology and Flexibility funds.

Q: What is the purpose of the Transportation Fund?

A: The Transportation Fund is used to pay for the costs of getting students from home to school and back. This can include the purchase of buses, building a bus barn, bus maintenance, bus driver salaries and benefits, hiring a private contractor to run the transportation program, and transportation reimbursement contracts. The state and county share in funding "on-schedule costs" that are based on bus routes and mileage contracts with parents. Additional funding is provided through fund balance reappropriated, non-levy revenues and a district transportation fund levy.

Q: What is the purpose of the Bus Depreciation Fund?

A: The Bus Depreciation Fund is used to accumulate funds for bus replacement and additional school buses. Revenue may come from fund balance reappropriated, non-levy revenues and a non-voted district tax levy.

Q: What is the purpose of the Tuition Fund?

A: The Tuition Fund is used in limited cases to pay tuition for a student who attends school outside his district of residence. Usually, the district pays tuition only for students the trustees have placed in another district or where geographic conditions make it impractical for the student to attend in his own district. Rates are set under MCA 20-5-323 based on 20% of the per-ANB entitlement for the year of attendance. Special education add-on rates are calculated under ARM 10.16.3818. Funding sources are fund balance reappropriated, direct state aid (for out-of-state tuition), non-levy revenue and a non-voted district tax levy.

Q: What is the purpose of the Retirement Fund?

A: The Retirement Fund is used to pay the school district's share of specific employer contributions, including social security and Medicare taxes, Teachers' Retirement System (TRS) and Public Employees Retirement System (PERS) contributions, and state unemployment insurance. It is funded by a countywide retirement levy.

Senate Bill 424, enacted by the 2003 Montana Legislature and signed into law by the Governor, contains a provision that requires school districts to use federal funds for employer contributions to the retirement, federal social security and unemployment insurance systems for all employees whose salaries are paid from a federal funding source, including Impact Aid. This provision was partially implemented for the 2003-2004 school year (FY 2004) and fully implemented in the 2004-2005 school year (FY 2005).

Q: What is the purpose of the Debt Service Fund?

A: The Debt Service Fund is used to budget and pay for a school district's bond debt, including principal and interest payments and agent fees, and/or special improvement district payments (SIDs). State equalization aid (known as state reimbursement for school facilities) is available to school districts that have a district mill value per ANB that is less than the corresponding statewide mill value per ANB. Debt Service Fund revenues also include fund balance reappropriated, non-levy revenue and a non-voted district tax levy.

Q: What is the purpose of the Adult Education Fund?

A: State law authorizes districts to establish an adult education program (MCA 20-7-702). The program may provide any area of instruction approved by the trustees, including basic and secondary general education and vocation/technical education. Revenue sources for this fund are fund balance reappropriated, non-levy revenue (including student fees) and a non-voted district tax levy. State and federal money received for an adult basic education program are accounted for in a different fund.

Q: What is the purpose of the Building Reserve Fund?

A: The Building Reserve Fund is used to accumulate funds for future construction, equipping or enlarging school buildings, or for purchasing land needed for school purposes. The fund is established upon passage of a voted levy that authorizes the levy for up to 20 years. The amount levied in one year is limited to the total authorized levy divided by the number of years authorized. Fund balance reappropriated and non-levy revenues are also sources of funding for the Building Reserve Fund.

The Building Reserve Fund can also be used to fund transition costs of opening or closing schools, based on a voted levy for up to 6 years.

Q: Can a school district ask for a building reserve of any amount?

A: The amount of total indebtedness of the school district cannot exceed a legal debt limit. This includes other debts the district is paying off through debt service.

Q: What is the purpose of the Technology Fund?

A: The Technology Fund is used for the purchase, rental, repair and maintenance of technology equipment and computer network access. It is funded by a state technology grant, fund balance reappropriated, non-levy revenues, state, federal and private grants or donations that will be spent in the budget year, and a district tax levy. The district tax levy is limited to 20% of the cost of the computer equipment and computer network access, not to exceed 150% of the cost over time. The district's voters must approve any increase in taxes from the previous year.

Q: What is the purpose of the Flexibility Fund?

A: This fund is used for technology, facility expansion, student assessment and evaluation, curriculum development and other types of expenditures as described in MCA 20-9-543. It is funded by the State Flexibility Payment, non-levy revenues and an optional, annual, voted levy of up to 25% of the estimated State Flexibility Payment.

Q: Do the Building Reserve, Technology and Flexibility Fund elections have to be held along with the general fund election in May?

A: No. These are special elections that can be held at any time, as long as the proper election procedures are followed. In order to allow enough time for completing the election before the budget is adopted, the school district would need to hold the election no later than August 1.

Q: What is a budget amendment?

A: A budget amendment is a procedure used to adjust an adopted budget. The law allows amendments for:

1. Unanticipated enrollment increases;
2. Destruction or impairment of school property;
3. Court judgment for damages against the district;
4. Enactment of legislation after the adoption of the budget;
5. Deferred projects to be funded from receipt of protested taxes, tax audit, or delinquent taxes; and
6. Unforeseen needs of the district that cannot be postponed without affecting the safety of students and employees or the educational functions of the school district.

Q: Do budget amendments have to be approved by the Office of Public Instruction?

A: The only budget amendments that must be approved by the Office of Public Instruction are the unanticipated enrollment increase and an emergency levy. All other budget amendments are approved at the trustee level. These amendments do, however, need to be filed with OPI, even though they do not need OPI approval. Steps for a resolution, public hearing, and time line are set by statute.

How to Read a Property Tax Bill

Property taxes are based on the market value of the property and the taxable rate. The Montana Constitution places the responsibility for property tax values on the state. All taxing jurisdictions must use the assessed valuation of property established by the state (Article VIII, Sections 1 and 4). The Department of Revenue is responsible for the appraisal, assessment and equalization of the value of all property in the state for the purpose of taxation. The Legislature establishes various classes of property and the rate of tax on each class. Local governments (counties, cities, school districts, fire districts, etc.) determine the mill levy requirements for each taxing jurisdiction. The board of county commissioners in each county sets the mill levies by the fourth Monday in August. Department of Revenue staff calculates the property tax liability for each property using the mill levies, including special district fees and charges. The county treasurer is responsible for the billing, collection and reconciliation of property taxes.

Information about property taxes is available at the Department of Revenue's website at http://discoveringmontana.com/revenue/forindividuals/property/aboutpt.asp.

Q: What is property tax liability?

A: It is the amount of taxes a property owner must pay to the county treasurer each year. The first half is due in November and the second half is due in May.

Property tax liability depends on the taxable value of property owned by the taxpayer and the number of mills levied.

Q: What is taxable value?

A: Taxable value is the market value of a piece of property times the tax rate for that property. Taxable value times the number of mills lev-

ied by the different taxing jurisdictions (i.e., school districts, cities, counties, state) will determine the property tax liability.

Taxable Value = Market Value X Tax Rate
Taxable Value X Mills = Property Tax Liability

Q: What is a tax rate?

A: The tax rate is the percentage of market value of property that is considered taxable.

Q: Do all property owners pay the same tax rate?

A: Under state law, different types, or "classes," of property are taxed at different rates. The property classification system is as follows (Tax Year 2004 taxable value percentages are in parenthesis):
(Note: Some exclusions of market value apply to certain classes of property before these rates apply.)

- **Class 1**
  Net proceeds of mines and mining claims, except coal and metal mines (100%)
- **Class 2**
  Gross proceeds of metal mines (3%)
- **Class 3**
  Agricultural land (3.30%)
  Nonproductive patented mining claims (3.30%)
  Nonagricultural land 20 acres or more but under 160 acres (23.10%)
- **Class 4**
  Residential, commercial, and industrial land and improvements (3.30%)
  Golf courses (1.65%)
  Mobile homes (3.30%)
- **Class 5**
  Air and water pollution control equipment (3%)
  Rural electric and telephone cooperatives (3%)
  Real and personal property of "new industry" (3%)
  Machinery and equipment used in electrolytic reduction facilities (3%)
  Real and personal property of research and development firms (3%)

Real and personal property used to produce gasohol (3%)

- **Class 6**
  Repealed Sections 27, 31, Chapter 285, L. 1999 (Now Exempt)
- **Class 7**
  Qualifying rural electric associations (8%)
- **Class 8**
  Business personal property (3%, possible phase-down beginning in 2004, MCA 15-6-138)
- **Class 9**
  Real & personal property of pipelines and the non-electric generating properties of electric utilities (12%)
- **Class 10**
  Forest land (0.35%)
- **Class 11**
  Repealed. Sec. 9, Chapter 267, L. 1993
- **Class 12**
  Real and personal property of railroads, railroad car companies, and airlines recalculated each year (3.88% for tax year 2003) MCA 15-6-145
- **Class 13**
  Real & personal property of telecommunication utilities and the electric generating property of electric utilities (6%)

Many property categories have formulas based upon gross sales. Additionally, the law defines certain unique properties, and these also have applicable formulas that are used to calculate taxable value.

Q: What is a mill?

A: A mill is one-thousandth (.001) of a dollar. School districts can determine how much a mill will raise by taking the total taxable value in a district (an amount provided to the school district by the county assessor) and multiplying it by .001. This result is equal to what one mill will raise.

Example: The taxable value of property in an elementary district is $46,000,000. This amount multiplied by .001 equals $46,000. In other

words, the amount of money raised by levying one mill would be $46,000.

If this district needs to raise $2,500,000, it would divide $2,500,000 by $46,000, thus determining that 54.34 mills are needed.

Q: What does this mean to a local taxpayer?

A: For a residential property owner whose house has an assessed market value of $100,000, the taxable value in 2004-05 would be $2,263.80 ($100,000 market value, less residential exemption of 31.4%, times tax rate of 3.3% for Class 4 property). This taxable value of $2,263.80 when multiplied by .001 would equal an individual cost of $2.26 per mill. If the mills needed by the school district are 54.34 (as indicated in the example above) the cost to the taxpayer would be determined as follows, 54.34 x $2.26 = $122.81.

Q: Are any properties exempt from property tax?

A: Several different properties are not subject to property taxes. Examples include:

Disabled Veterans' Land;
School, City and County Lands;
Churches;
U.S. Government Land;
Municipal Corporations;
Some Nonprofit Organizations (such as nonprofit health care facilities); and
Public Facilities (such as museums, art galleries, zoos, etc.)

Q: Are any of these taxes grouped together?

A: Occasionally, a county treasurer will group taxes together. However, by law, the county treasurer should design the tax notice to reflect taxing jurisdictions.

Q: Is the total amount that a taxpayer pays toward education reflected in local school district property taxes?

A: In addition to mill levy taxes for local schools, there is a statewide

equalization mill levy of 40 mills. Taxpayers also pay 33 mills for elementary county equalization and 22 mills for high school county equalization.

Q: What is the purpose of state and county equalization levies?

A: Every property owner in the state is assessed a 40 mill state equalization levy and a 55 mill county levy. Money raised by these levies goes to the State General Fund. The purpose of these levies is to support statewide funding of school districts in the form of direct state aid, guaranteed tax base (GTB) aid, state transportation aid, and state special education funding.

Q: What does a typical tax notice for a residential home include?

A: An example of items found on a tax notice for a residential home is as follows:

Market value of the land — Taxable value of the land
Market value of the buildings — Taxable value of the buildings
Legal description of the property — Taxable value of personal property
Special Assessments for city and/or county
Countywide mills
Citywide mills
School Mills

Example of school mills:

Elementary School District	
General	87.47 mills
School District Transportation	5.65 mills
Bus Reserves	2.01 mills
Debt Service	9.69 mills
Adult Education	1.00 mills
Technology	3.70 mills
Flexibility	5.25 mills
High School District	
General	55.76 mills
School District Transportation	2.47 mills
Bus Reserves	2.01 mills
Debt Service	3.24 mills
Adult Education	.39 mills
Technology	4.30 mills
Flexibility	6.75 mills

Countywide Levy	
Countywide Elementary	33.00 mills
Countywide High school	22.00 mills
Elementary Retirement	19.36 mills
High school Retirement	11.26 mills
County Transportation	4.17 mills
Vo-Tech (only in counties that have a Vo-Tech center)	1.50 mills
Statewide Levy	
State Equalization	40.00 mills
University mills	6.00 mills
Total School mills	328.98

In addition, city and/or county taxes are listed. In most urban tax notices, there is not a breakdown of all city taxes, but the notice lists a single tax. Many rural counties list every tax jurisdiction, but tax notices vary from county to county. If a taxpayer would like to have additional information concerning an individual tax notice, the treasurer's office can provide a detailed breakdown of all mills assessed.

Q: What is a "business equipment" tax?

A: The business equipment tax is a personal property tax applied to any class of personal property that is used by a sole proprietor, firm, association, partnership, business, corporation, or limited liability company (MCA 15-16-122).

Q: Is all business personal property taxed the same way?

A: There are several classifications of business-related personal property within the property classification system. Each class has different tax rates and exemptions. Most business personal property is Class 8 property (see MCA 15-6-138). Personal property used in specific industries is included in Classes 5, 6, 7, 9 12 and 13.

Q: How does business taxation affect a school district?

A: In districts where there are large industrial plants, high personal

property valuation of business property increases the tax base of a district. This assists greatly in raising tax dollars to support a school district.

Grants and Other Funding Sources

Most of the revenue that a school district uses for its general fund budget comes from local, county, state, and federal taxes. The exact percentage that a district receives from each source depends upon the economic and population conditions of the district. School districts commonly look for other ways to bring revenue into the district without using direct tax dollars.

Q: Are grants a common source of revenue among school districts?

A: Grants are quite common as a method of supplementing school district budgets. The two common types of grants are "discretionary" and "entitlement."

Q: What is a discretionary grant?

A: Discretionary grants are competitive and can be obtained either through governmental agencies, a private sponsor, or the corporate sector. The skill of the grant writer is crucial to the success of this process; a district's needs alone may not be enough to ensure a competitive grant. It is becoming more common for small school districts to work together in a cooperative manner, pooling resources to fund a qualified grant writer. Large districts might hire their own writer or assign grant writing responsibilities to an administrator.

Q: What is an entitlement grant?

A: An entitlement grant is a grant awarded to a district based on a formula which may focus on enrollment or other factors rather than need.

Q: What grants are administered by the Office of Public Instruction (OPI)?

A: An overview of state and federal grant programs administered by OPI can be found at its website at http://www.opi.state.mt.us/federalprograms/handbook.html.

Q: Can school districts receive donations or endowments?

A: Yes, schools can accept and use donations or endowments from individuals, businesses, or public or private foundations.

Q: How do schools fund athletics and activities?

A: School districts fund athletics and activities, such as football, basketball, band, speech, etc., using gate receipts and participation fees, fundraisers, donations from booster clubs and parent organizations. Districts also support these programs using their general fund budgets.

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